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Finance

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Grassley Outlines Detailed Goals for Trade Talks in Cancun

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today released a position paper outlining detailed goals for the World Trade Organization negotiations ongoing in Cancun, Mexico. Grassley's position paper follows.

STATEMENT OF SENATOR CHARLES E. GRASSLEY,
CHAIRMAN, U.S. SENATE FINANCE COMMITTEE

GOALS FOR THE WTO MINISTERIAL CONFERENCE
IN CANCUN, MEXICO

SEPTEMBER 2003

Introduction

The Cancun ministerial is the midpoint of a once-in-a-generation opportunity to achieve meaningful trade liberalization on a global scale. Progress in these meetings is critical if we are to open markets, foster trade, and thereby fulfill our commitment to the development agenda agreed upon in Doha.

By now it should be evident that the dialogue cannot be driven by a North/South debate. Trade liberalization through the World Trade Organization will benefit developed and developing countries alike. The World Bank estimates that the elimination of barriers to manufactured and agriculture products would boost global income by over \$830 billion, with 65 percent of that gain going to developing countries. A successful WTO round could lift as many 144 million people out of poverty by 2015. These potential gains are not to be taken lightly.

It is especially important to remember that these negotiations are taking place at a unique time in the economic history of the United States. Last year, with the passage of the Trade Act of 2002, the U.S. Congress authorized the President of the United States to negotiate a trade agreement under the auspices of the World Trade Organization. This means that the U.S. Congress supports the WTO negotiations. Under the Trade Promotion Authority (TPA) procedures established by the 2002 Act, any agreement meeting the objectives of the Act will be considered by Congress quickly and without

amendment. This process vastly improves the prospects for getting a WTO trade agreement approved by the U.S. Congress. But, time is not on our side. TPA authority is set to expire in June 2005. While this authority can be extended, it is by no means certain that the U.S. Congress will agree to do so. So, we have only a limited window of opportunity for this round to succeed.

Success in this round will require concessions on all sides, especially with respect to agriculture. If the United States is going to commit to reductions in our domestic support and export credit programs, I expect that we will receive in exchange firm commitments to substantially open up markets for our agricultural exports. To accomplish this goal, the meetings in Cancun, Mexico, need to produce frameworks for the key issues that are going to spell either success or failure for these negotiations.

By far the most pressing need is in agriculture and the three pillars of market access, domestic support, and export subsidies. Unfortunately, our partners in the European Union seek to interject an unrelated issue into the agriculture negotiations, and that's geographical indications. This is a non-starter. Geographical indications don't belong in agriculture negotiations. They fall under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and should remain in discussions led by the TRIPS Council. On top of that, any TRIPS discussion of geographical indications should be limited to the nature of a registry for wines and spirits. Other important issues for Cancun include non-agricultural market access, services, and the four Singapore issues, i.e. trade facilitation, transparency in government procurement, competition policy, and investment.

Hopefully, the world's trade negotiators have come to Cancun ready to build momentum and agree on the frameworks that will drive the negotiations to a successful conclusion on time. I strongly support conclusion of the Doha Development Round by the agreed upon deadline of January 2005. While this timetable is ambitious, I believe if the political will is there, it is achievable.

Key Issues for the Cancun Ministerial

The mandate for the Doha negotiations covers a wide range of pressing issues. Foremost among these is agriculture.

1. Agriculture

Reform of trade in agriculture is essential to the long-term well-being of the agricultural sectors of both the developed and developing worlds. WTO members recognized this when writing the Doha Declarations, which call for substantial improvements in market access, substantial reductions in trade-distorting domestic support, and the reduction, with a view to phasing out, of all forms of export subsidies. Building on this mandate, the Cancun ministerial must successfully address the three pillars of the agricultural talks: market access, domestic support, and export subsidies. The negotiations must result in more open markets for U.S. goods and achieve greater market integration for developing countries, thereby promoting economic growth and prosperity throughout the world.

Market Access

Achieving substantial improvements in market access for agricultural trade is the single greatest objective of the Doha Round. Any proposed agreement that doesn't fulfill this objective will not be supported politically and must be rejected. U.S. tariffs on agricultural products are significantly lower than those of most WTO members, so tariff reductions on a simple average basis won't achieve the significant market access needed by U.S. farmers and ranchers. In fact, such an approach is simply unfair. We need to cut high agricultural tariffs and eliminate tariff peaks, and thus bring harmonization to tariff levels in the WTO. If you're truly going to liberalize trade, it just makes sense to cut higher tariffs more than lower ones. The resulting trade liberalization achieved through such tariff reductions will benefit producers and consumers in all members of the international trading community.

Domestic Support

Another major goal of these negotiations is to eliminate subsidies. In reaching this goal, negotiators must make it a top priority to reduce and harmonize levels of domestic support. The United States is currently at a significant disadvantage in this area compared to many other nations. For example, the European Union provides three times the level of domestic support for its producers as does the United States. Some movement toward parity is a political necessity. Countries with higher levels of trade-distorting subsidies must make larger cuts in these subsidies compared to other countries. We're willing to phase out, and ultimately eliminate, our domestic support, but only if other countries join us in doing so, including developing countries and countries such as Brazil.

As a first step, we should insist on the same domestic support disciplines for developed countries and net-food-exporting developing countries alike. After all, some developing countries have highly advanced agricultural sectors that compete successfully, and directly, with the United States and other developed countries. Put simply, providing special and differential treatment in agriculture for developing countries with first-rate, internationally competitive agricultural sectors is unwarranted. To do so would be unfair to the large number of other developing countries whose farmers truly merit special rules on agriculture.

Export Subsidies

The Doha Declarations call for WTO members to make "reductions of, with a view to phasing out, all forms of export subsidies." The Cancun ministerial must fulfill what was agreed to in Doha. Accordingly, export subsidies must be eliminated, and a firm date must be provided for their elimination.

Export subsidies are the most trade-distorting of all support measures. Some 90 percent of funds expended around the world on export subsidies are attributed to the European Union. The European Union uses massive export subsidies to dump its products on the world market. This dumping greatly depresses world prices to the detriment of farmers outside of Europe. In comparison, export subsidies are used only nominally by the United States. The disparity in the use of export subsidies is notable. In 2000, the United States spent only \$15.3 million on export subsidies while the European Union spent \$2.1 billion. While the United States is clearly prepared to eliminate the use of all export subsidies, it is not politically realistic to ask U.S. farmers to accept this unless the

Europeans agree to do the same with their export subsidies.

Apart from export subsidies, some countries have raised broader issues with respect to export competition. While we recognize that additional disciplines will be negotiated on the use of export credits, such disciplines must be rules-based and ensure the continued availability of credit programs to meet the food-security needs of food-importing countries. Likewise, food aid should not be disciplined in a way that would limit the flexibility of donor nations to provide much needed assistance in times of food crises. We should not be establishing rules at the WTO that make it more difficult to provide food aid. Flexibility needs to be preserved in any final agreement.

Geographical Indications

The European Union has pursued a three-pronged agenda with respect to geographical indications, i.e. the creation of a legally binding international registry for wines and spirits under the TRIPS Agreement, the extension of TRIPS protection to geographical indications for other agricultural products, and, in the context of the agriculture negotiations, the clawback of the TRIPS grandfather clause to unilaterally undo the consensus reached in the Uruguay Round and thereby afford protections to terms that have fallen into common usage. Each of these initiatives is a non-starter.

As an initial matter, discussions on geographical indications must remain under the auspices of the TRIPS Agreement, and any attempt to interject geographical indications into the agriculture negotiations must be rejected outright. Moreover, the clawback initiative is essentially an exercise in expropriation, which would only deprive the actual creators of market value of the fruits of their efforts. Any such outcome is simply unacceptable. As for the wines and spirits registry, any attempt to create binding legal obligations exceeds the Doha mandate, and similarly must be rejected. Finally, any discussion of extension is simply premature at this stage, given the absence of a consensus on the nature of the wines and spirits registry and the fact that the EU has not abandoned its push for clawback.

2. Non-Agricultural Market Access (NAMA)

As with each of the other issues, progress will depend first and foremost on breakthroughs in the agriculture negotiations. However, this should not stop us from moving ahead on the NAMA issues, which include the framework for line-by-line tariff reductions, sectoral initiatives, and the elimination of non-tariff barriers to trade (NTBs).

The most important objective for the NAMA negotiations is to preserve an ambitious formula for tariff reductions. This means the adoption of a single, harmonizing formula, applicable to all countries, with appropriate flexibilities and credits built in for developing countries. To the extent the language in the draft ministerial text may be interpreted as a reference to the flawed formula proposed by Chairman Girard, the text should be clarified to indicate that no such reference is intended. While some differential treatment may be appropriate in certain instances, it's imperative that all countries remain on the same page. This means adherence to one general formula that is ambitious and yet flexible enough to accommodate everyone.

The quicker we can achieve market liberalization, the faster the benefits of expanded trade can flow to the farmers, ranchers, workers, and consumers of the world. Certain sectors are ripe for zero-for-zero tariff elimination, and such sectoral initiatives are integral to an ambitious agreement on NAMA. We need to make sure that Cancun lays the groundwork for a robust sectoral component in the final agreement. We also need to address the elimination of non-tariff barriers to ensure that the gains we achieve in tariff elimination are not undermined by NTBs.

3. Services

Open markets for services benefit developed and developing countries alike. Services are essential inputs in the production of goods. Low-cost, reliable access to financial, telecommunications, distribution, and transportation services are a key input in the manufacture of goods and enhance a country's ability to engage in international trade.

Services now constitute the predominant sector of the U.S. economy, employing 80 percent of Americans. Over the past 20 years, almost 40 million jobs have been added in the United States across the full range of service industries. Today, services account for almost two-thirds of GDP in the United States.

But the United States is not the only country that will benefit from liberalization of trade in services. Some researchers estimate that the world would realize a \$1.4 trillion gain in income if service barriers were eliminated. About \$1 trillion of this gain would benefit countries other than the United States, so the rest of the world has an incentive to join us in liberalizing services trade. In fact, the World Bank has reported that services typically account for around 54 percent of GDP in developing countries, and services are the fastest growing sector in many least-developed-countries. So we all have a stake in these negotiations.

But our trading partners need to demonstrate their interest and their commitment in opening trade in services with actions, not just words. The deadline for initial offers on services was March 31, 2003. To date, only 30 developed and developing countries have joined the United States in submitting offers. In Cancun and beyond, our trading partners must take concrete steps and recommit themselves to achieving an ambitious agreement on liberalizing services trade. The first step is to table specific offers so the negotiations can move forward.

4. Singapore Issues

The Doha Declarations called for decisions to be taken at Cancun with respect to the pace of negotiations on four issues, i.e. trade facilitation, transparency in government procurement, competition policy, and investment. An important thing to remember is that negotiation on any one of these issues need not be linked to negotiations on the others. We should proceed with negotiations only as consensus builds on the merits for movement on each particular issue. Right now it seems like we have such a consensus on the issues of trade facilitation and transparency in government procurement, whereas progress on the issues of competition policy and investment is not quite as advanced. Chairman Castillo's draft ministerial text for Cancun currently provides two options for each of the Singapore issues, i.e. to launch negotiations or to continue discussions on the

clarification of issues. Let's move ahead on the two issues that seem ripe for negotiations, i.e. trade facilitation and transparency with government procurement. With respect to competition policy, I'm disappointed that a third option submitted by the United States, i.e. development of a WTO peer review process on competition policy, has been dropped. This just points out the need for more discussions on competition policy before negotiations can be started, and I think the same is true of investment.

Conclusion

The United States is at an important crossroads in our decades-long effort to foster economic growth and prosperity by opening markets and liberalizing global trade. In the current Doha Round negotiations, the United States is pursuing an ambitious agenda tied to an aggressive timetable. We seek to achieve broad market access for both goods and services. This is especially true for agriculture. The negotiations now taking place in Cancun, Mexico, can set the stage for a new and prosperous world economy for our children and grandchildren. Truly, this is a once-in-a-generation opportunity. But let's be clear. Either we will achieve liberalization for all, or there will be liberalization for none. The economic future of the world economy is a shared responsibility. To succeed, the remaining negotiations in the Doha Round require movement on all fronts, and from all WTO members. The United States has proven its desire to lead, and we'll continue to push for broad trade liberalization. We'll do so because trade liberalization benefits not only the United States, but all nations, rich and poor, North and South. Working together, we can create a brighter economic future for all nations.